

FLUID MINERALS BOND PROCESSING USER GUIDE

XII. Bond Coverage when Processing Record Title AssignmentsKeywords

Close coordination between the Field Office Fluid Mineral Operations and SO Fluid Leasing Adjudication is essential for effective administration of bonds for oil and gas lease operations, particularly when record title assignments are involved. While Field Office Fluid Mineral Operations personnel are responsible for approving and supervising leasehold operations, the SO Fluid Leasing Adjudication is responsible for all final actions on oil and gas bonds, including requesting, accepting, terminating the period of liability, and making a demand and collection against such bonds when default occurs.

Field Office Fluid Mineral Operations staff must notify the SO Fluid Leasing Adjudication when operations are approved for a lease by submitting either a copy of the approved APD form or a memorandum to Adjudication and by entry of the lease and well information into the ABSS on the Serial Numbers for Bond Screen for the applicable bond. This notification is a very important indication to the SO Fluid Leasing Adjudication, prior to approval of any record title assignment or termination of the period of liability of the bond, that a report is required from the Field Office Fluid Mineral Operations concerning the operational status of the lease. When the final abandonment of the last well on a lease is approved, or when the APD for the only well on a lease is rescinded, the Field Office Fluid Mineral Operations also must notify the SO Fluid Leasing Adjudication of such an action and remove the lease/well information from the ABSS (Serial Numbers for Bond Screen).

NOTIFICATION
OF APPROVED
LEASEHOLD
OPERATIONS

For a producing lease, or any lease on which operations have commenced, the SO fluid leasing adjudication will access the ABSS (Serial Numbers for Bond Screen) when an application for approval of a record title assignment is received to determine who is operating the lease. If the operator of the lease is bonded either under its own bond or, with consent of the surety, under the lessee's bond, the assignment may be approved, all else being regular. The period of liability of the individual lease bond, if an individual bond provided coverage for the lease, may be terminated upon the approval of a 100 percent assignment to another party.

FIELD OFFICE
REPORT PRIOR
TO ASSIGNMENT
APPROVAL

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Some State Offices have experienced problems when they automatically terminate the period of liability for individual lease bonds upon the approval of an assignment. Most State Offices, however, have not experienced any problems and routinely terminate the periods of liability of the bonds, and simply reinstate the bond if there is any immediate objection from the principal/obligor.

If lessees or sublessees have provided bond coverage for lease operations, and the current lease operator is not bonded, the assignee is to be advised that one of the following options must be exercised before approval of the assignment will be granted:

BOND COVERAGE
PRIOR TO
ASSIGNMENT
APPROVAL

A. The assignee may furnish a bond, accompanied by a consent of surety rider to extend coverage of the bond to the operator's lease operations; **OR**

B. The lease operator may furnish bond coverage for its operations on the lease, accompanied by a statement that, as lease operator, the principal is responsible under the terms and conditions of the lease for the operations conducted on that lease. (NOTE: This statement is to be made either by a letter or by notation on the APD or Sundry Notice that is submitted.) If the operator furnishes bond coverage in this manner, the lessees would be relieved of the bonding requirements for the lease; **OR**

C. Any one of the lessees currently providing bond coverage for the lease may furnish coverage for the lease operations being conducted by the operator by providing a consent of surety rider to the lessee's bond.

Each State Office must identify the manner in which it will notify assignees of the revised bond requirements. Sixty days may be allowed for the assignee to provide bond coverage, although additional time may be granted upon written request (see Illustrations 52, 53, and 54).

If no response is received within the time allowed, issue a decision denying the approval of the assignment (see Illustration 55 and Dallas Oil Co., 93 IBLA 118 (1986)).

BOND REQUIRED
BY ASSIGNEE

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The IBLA decision, Karis Oil Co., Inc., 59 IBLA 123 (1981), explains that the bond the assignee is required to provide is that which will cover any obligations arising under the lease to the **same** extent that the assignor's bond would have done. A bond rider is **not** required to assume **prior** liabilities. The fact that the period of liability of the prior bond has been terminated means only that the exact date has been set, beyond which no **new** cause of action by the previous operator may accrue. Therefore, a Department of the Interior Rocky Mountain Regional Solicitor's Opinion, dated January 20, 1987, states that the BLM is to ensure that the bond provided by the assignee/operator will cover all obligations existing at the time of approval by BLM of the assignment (see Appendix 19).

ASSIGNEE
ASSUMPTION OF
LIABILITY
NOT REQUIRED

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